



AUDITOR-GENERAL

REFERENCE: 60009REG05/06

ENQUIRIES: Stephen Paine

DATE: 30 November 2006

The Head: Traditional and Local Government Affairs
Province of KwaZulu-Natal
Private Bag X9078
PIETERMARITZBURG
3200

Attention: Chief Director: Local Government

**REPORTS OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS AND RESULTS OF
PERFORMANCE MEASUREMENTS OF AMAJUBA DISTRICT MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2006**

1. The above-mentioned reports of the Auditor-General are herewith submitted in terms of section 21(4) of the Public Audit Act, 2004 (Act No. 25 of 2004), read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).
2. Until tabled, or published by the Auditor-General, these reports are **not public documents** and should therefore be treated as **confidential**.

Kindly acknowledge receipt of this letter.

Yours faithfully

for AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF AMAJUBA DISTRICT MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 16 to 33, for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004). These financial statements are the responsibility of the municipal manager. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality's policy is to prepare the financial statements on the entity specific basis of accounting as described in accounting policy note 1.1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003)(MFMA).

4. QUALIFICATION

4.1 Investment in uThukela Water

The municipality has entered into a water services provider agreement with uThukela Water (Pty) Ltd together with two other water services authorities. The shareholders agreement has to date not been finalized. The municipality was, therefore, unable to reasonably determine the value of its investment in this company. Accordingly, the financial statements do not include any disclosure of its investment in uThukela Water (Pty) Ltd. Included in the financial statements are the following balances relating to the transfer of the water function to uThukela Water (Pty) Ltd which have not been taken into account in determining the investment in uThukela Water (Pty) Ltd.

	R
Creditors	10 470 947
Bank and Investments	18 961 655

4.2 Transfer of water and sanitation services

In terms of the instructions by the Minister for Provincial and Local Government in Government Gazette 25076 dated 13 June 2003 assets, rights, liabilities and obligations relating to the water and sanitation services for the Newcastle area should be transferred to Newcastle Municipality as the appointed water services authority. At the date of this report the assets of the Ngagane Water Purification Works, used for the provision of water in the Newcastle area, have not been transferred to the Newcastle Municipality.

4.3 Expenditure – Conditional grants

Conditional grant funding of R7 501 214 and the related expenditure of R9 249 740 had been incorrectly disclosed in the income statement. The accounting for these transactions is not consistent with the IMFO reporting guidelines, the basis of accounting used to prepare the financial statements. As a result income is overstated by R7 501 214 and expenditure is overstated by R9 249 740.

5. QUALIFIED AUDIT OPINION

In my opinion, except for the effect on the financial statements of the matters referred to in the preceding paragraph, the financial statements have been prepared in all material respects, in accordance with the basis of accounting described in accounting policy note 1.1 to the financial statements and in the manner required by the Municipal Finance Management Act, 2003.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion expressed above, attention is drawn to the following matters:

6.1 Overall control environment

During the audit it was evident that some key and other controls were either poor or non-existent and that management supervision and control was inadequate. As a result, laid down routine controls were not always adequately monitored to ensure that they operated as designed and that delegated responsibilities had been properly discharged.

The following is a summary of the more significant audit observations raised during the course of the audit which indicates a lack of control in these areas.

- Management had not developed and documented specific written policies and procedures to guide financial accounting processes and related controls for each of the main audit cycles.
- A risk management policy had not yet been formulated. As a result, no risk assessments were undertaken during the period under review.
- The municipality had not developed a fraud prevention plan to assist them to detect and prevent fraud.
- The municipality had not prepared a reconciliation of the creditors' ledger to the creditors control account in the general ledger. A sample of journal entries audited revealed that the forms had not been authorised by the delegated official.
- Numerous general journals processed for salaries throughout the financial year were not authorised by the delegated official.

6.2 Payment to uThukela Water (Pty) Ltd

Included under sundry debtors is an amount of R124 889 relating to a payment made to uThukela Water (Pty) Ltd. The supporting documentation with respect to this transaction could not be produced for audit. As a result the validity and recoverability of the balance could not be verified.

6.3 Operating deficit

The operations of the municipality for the 2005/06 financial year resulted in an overall deficit of R6 100 078 which reduced the accumulated surplus from R19 648 017 to R13 547 939.

6.4 Funding of assets

A review of the financial statement revealed that the total net assets per appendix C (R1 170 286) does not reconcile to the total external loans and internal advances recorded in appendix B (R1 298 916), resulting in a difference of R128 630.

6.5 Levy income

Following our audit of levy income the following shortcomings were noted:-

- Levies are accounted for on a self assessment basis and income is only accounted for on a cash received basis. Consequently, it could not be ascertained whether all entities, which are liable for payment of levies, are in fact registered. Six businesses were identified which were not registered on the municipality's database to pay levies. The municipality's policies and procedures were ineffective in identifying businesses which were not registered to pay levies.
- A reconciliation of levy income, as per the Bekker reports, to the amount disclosed in the financial statements revealed a difference of R62 860 between the apportionment report and the trial balance and general ledger.
- Furthermore, nine declaration forms (DM4 form) could not be produced for audit purposes. Only nine of the forms inspected were actually scanned onto the system.
- On review of the listing of cheques received via the post it was found that not all listings were signed by the cashier or did not have all the required signatures.

6.6 Fixed asset register

Our review of the fixed asset register produced for audit revealed the following weaknesses which indicates a lack of control over the safeguarding and custody of the assets of the municipality:-

- The actual date of purchase of the assets was not indicated in the assets register.
- The majority of items recorded in the assets register were reflected at a base cost of R100.
- Numerous assets were not bar-coded.
- Five assets, valued at R3 932, were duplicated on the asset register.
- Instances were noted where the same asset number was allocated to more than one asset.
- Twenty-six items valued at R82 599 and classified as inventory were included in the fixed asset register.
- Four assets purchased during the 2005-2006 financial year were not included in the fixed asset register.

- One item purchased during the 2005-2006 financial year had been included in the fixed asset register but was classified as inventory.
- Evidence of annual asset counts undertaken could not be provided on request. Proof of reconciliation between a physical assets count and the assets register could therefore not be produced on request.

7. APPRECIATION

The assistance rendered by the staff of Amajuba District Municipality during the audit is sincerely appreciated.



R. Rabichand for Auditor-General

Pietermaritzburg

30 November 2006



A U D I T O R - G E N E R A L